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Message Text

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FOL REPEAT BUDAPEST 0787 SENT ACTION SECSTATE INFO BUCHAREST MOSCOW SOFIA WARSAW GENEVA AND USDEL MTN GENEVA MARCH 19, 1975

QUOTE

C O N F I D E N T I A L BUDAPEST 0787

E.O. 11652: GDS
TAGS: ETRD, HU
SUBJ: EXTENSION OF MFN AND HUNGARY'S POSITION IN GATT

1. SUMMARY: SENIOR FOREIGN TRADE OFFICIALS AND HUNGARIAN GATT REPRESENTATIVE JANOS NYERGES TOLD US IN RECENT DISCUSSION THAT IN ANY FUTURE NEGOTIATIONS WITH U.S. ON POSSIBLE TRADE AGREEMENT HUNGARY WOULD INSIST THAT MFN BE EXTENDED UNCONDITIONALLY ON THE BASIS OF OUR MEMBERSHIP IN GATT. NYERGES ADDED THAT EVEN IF U.S. AND USSR WERE ABLE TO SOLVE CURRENT DIFFERENCES ON EMIGRATION AND CONCLUDE TRADE AGREEMENT, HUNGARY COULD NOT ACCEPT MFN FROM U.S. UNDER TERMS OF TRADE REFORM ACT OF 1974. ACCEPTING MFN ON SUCH A CONDITIONAL BASIS WOULD SERIOUSLY WEAKEN HUNGARY'S BARGAINING POSITION IN GATT VIS-A-VIS EC COUNTRIES WHICH BY FAR HUNGARY'S MOST IMPORTANT TRAIDING PARTNERS. NYERGES INDICATED FURTHER THAT HE ATTEMPTING TO ORGANIZE UNITED FRONT OF HUNGARY, CZECHOSLOVAKIA, BULGARIA, AND HOPEFULLY CONFIDENTIAL

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POLAND IN TAKING COMMON POSITION IN CURRENT GATT ROUND TO

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KEEP THESE COUNTRIES FROM LOSING SOME OF WHAT THEY HAD GAINED DURING PPREVIOUS TRADE NEGOTIATIONS. POLAND HAD ALREADY BEEN APPROACHED BY EC WITH SUGGESTIONS THAT IT CONSIDER MAKING CERTAIN CONCESSIONS REGARDING ITS MFN RIGHTS AND WAS EVIDENTLY CONSIDERING THIS OFFER SERIOUSLY. EMBASSY'S OPINION THAT WHILE NYERGES' REMARKS MAY ACCURATELY REFLECT CURRENT GOH THINKING, THIS HARD LINE ON POSSIBLE TRADE NEGOTIATIONS WITH US MOST PROBABLY NEGOTIATING PLOY TO HELP STRENGTHEN HUNGARIAN POSITION AS MUCH AS POSSIBLE VIS-A-VIS EEC AT A TIME WHEN CHANCES FOR EARLY NEGOTIATION OF U.S.-HUNGARIAN BILATERAL TRADE ACCORD APPEAR REMOTE. END SUMMARY.

2. IN RECENT CONVERSATION WITH JANOS NYERGES, HUNGARY'S GATT REPRESENTATIVE, HE INFORMED US THAT HUNGARY NOT WILLING TO NEGOTIATE WITH U.S. UNDER TERMS OF TRADE ACT OF 1974. NYERGES STATED THAT U.S. SHOULD NOT INVITE HUNGARY TO BEGIN NEGOTIATIONS AS GOH WOULD HAVE TO GIVE NEGATIVE REPLY. NYERGES CONTINUED THAT TITLE 4 OF TRADE ACT DISCRIMINATES AGAINST EASTERN EUROPEAN COUNTRIES AND EVEN IF IT WERE TO BE MODIFIED BY REPEAL OF THE JACKSON-VANIK AMENDMENT, IT WOULD STILL BE UNACCEPTABLE TO GOH. THE ACT (SECTIONS 402 AND 404) PROVIDES FOR POSSIBLE TEMPORARY EXTENSION OF MFN TREATMENT TO COUNTRIES LIKE HUNGARY WHEREAS UNDER GATT ONCE MFN IS EXTENDED TO A CONTRACTING PARTY (IN U.S. CASE BY DISINVOCATION OF GATT ARTICLE 35), MFN CANNOT BE WITH-DRAWN FROM THAT CONTRACTING PARTY ALONE. THUS ONCE ARTICLE 35 OF GATT IS DISINVOKED BY A CONTRACTING PARTY, MFN PRO-VISIONS OF GATT APPLY AND CANNOT BE WITHDRAWN UNLESS CON-TRACTING PARTY WOULD WITHDRAW FROM GATT OR OBTAIN A SPECIAL WAIVER.

3. ACCORDING TO NYERGES, EVEN IF SOVIET UNION AND U.S. ABLE TO FIND SOLUTION TO PROBLEM OF FREEDOM OF EMIGRATION IN U.S. TRADE, AND U.S. AND USSR WERE TO NEGOTIATE BI-LATERAL TRADE AGREEMENT CONSISTENT WITH TRADE ACT OF 1974, HUNGARY WOULD NOTDO SO. GOH FINDS UNACCEPTABLE PROVISIONS OF TRADE ACT, I.E., SECTION 411 THAT PUT NON-MARKET ECO-NOMY COUNTRIES "IN A GHETTO", AND HUNGARY WOULD PREFER TO AWAIT DISPASSIONATELY FOR A MORE PROMISING FRAMEWORK FOR CONFIDENTIAL

NEGOTIATIONS SO IT WOULD BE ABLE TO CONCLUDE A TRULY NON-DISCRIMINATORY AGREEMENT WITH U.S.

4. NYERGES STATED HUNGARY'S MOST IMPORTANT GATT RELATION-SHIPS WITH EUROPEAN COMMUNITY AND THAT HUNGARY'S TRADE WITH U.S. COMPARATIVELY MINOR MATTER. IF HUNGARY WERE TO ACCEPT FROM U.S. TEMPORARY MFN TREATMENT, CONDITIONALLY RENEWABLE, EC WOULD NO DOUBT INSIST THAT HUNGARY TRADE WITH IT ALSO

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ON THAT BASIS. THEREFORE IMPORTANT THING FOR HUNGARY IS NOT TO OBTAIN TEMPORARY MFN FROM U.S. BUT RATHER TO RETAIN PERMANENT MFN WHICH EC IS NOW OBLIGED TO GIVE HUNGARY UNDER TERMS OF GATT.

5. NYERGES RECALLED WITH GREAT PLEASURE ASSISTANCE GIVEN BY U.S. TO HUNGARY IN DEALING WIT EUROPEAN COMMUNITY WHEN HUNGARIANS NEGOTIATING ITS ACCESSION TO GATT. HE EXPRESSED HOPE THAT U.S. WILL BE ABLE TO JOIN WITH HUNGARY, CZECHOSLOVAKIA, BULGARIA, PERHAPS POLAND AND WESTERN ECONOMIES IN ASSOCIATION WITH EUROPEAN COMMUNITY IN FURTHERING THEIR COMMON INTERESTS DURING NEGOTIATIONS WITH EC IN TOKYO ROUND. WHILE NYERGES OF OPINION THAT TRADE ACT OF 1974 WILL GREATLY WEAKEN MORAL FORCE OF U.S. IN JOINING WITH EE AND OTHER COUNTRIES IN SEEKING TO OBTAIN LIBERAL TRADE ARRANGEMENTS
FROM EC, HE IS MOST ANXIOUS TO DISCUSS THIS QUESTION WITH QUALIFIED TRADE REPRESENTATIVES IN GENEVA. IT ALSO SUGGESTED THAT HE CONTACT MANUEL ABRAMS OR ROBERT BRUNGART OF USMISSION UPON HIS RETURN TO GENEVA LATER THIS WEEK.

6. NYERGES REMARKED THAT EC IS CURRENTLY MAKING OVERTURES TO POLAND IN HOPE THAT IT WILL ACCEPT TERMS WHICH WOULD UNDERCUT THOSE WON BY EE COUNTRIES IN PREVIOUS GATT NEGOTIATIONS. HE SAYS THAT HE HOPES TO BE ABLE TO DISSUADE POLAND FROM MAKING SUCH CONCESSIONS AND THAT HE WILL BE ABLE TO ASSOCIATE CZECHOSLOVAKIA AND BULGARIA WITH HUNGARY IN JOINT APPROACH TO EC ON THIS QUESTION. NYERGES STATED HIS CURRENT PROBLEM WAS WHETHER TO ADVOCATE WHETHER ALL FOUR EE COUNTRIES SEEK ACCOMMODATIONS WITH EUROPEAN COMMUNITY OR ATTEMPT TO HAVE THE FOUR JOIN WITH THE U.S. AND OTHER WESTERN MARKET ECONOMY COUNTRIES IN NEGOTIATIONS
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WITH THE COMMUNITY.

7. NYERGES SAID THE SOVIETS MAY POSSIBLY WISH TO PARTICIPATE IN TOKYO ROUND. AT PRESENT THEY ARE CONSIDERING POSSIBLE PARTICIPATION -- SOMETHING THEY WOULD NOT HAVE DONE TWO YEARS AGO. HE COULD NOT PREDICT WHAT DECISION THEY MIGHT REACH.

8. REGARDING U.S.-ROMANIAN TRADE NEGOTIATIONS, NYERGES EXPRESSEDCURIOUSITY. HE APPARENTLY SUSPECTS THAT ROMANIANS WISH TO CONCLUDE TRADE AGREEMENT WITH U.S. MERELY TO SHOW INDEPENDENCE FROM USSR. WHEN ASKED WHAT PRACTICAL ADVANTAGES ROMANIANS MIGHT EXPECT FROM THIS COURSE OF ACTION, NYERGES MERELY LAUGHED AND SAID THIS WAS TYPICAL AMERICAN QUESTION.

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9. COMMENT: NYERGES' REMARKS OFFER EXTENSIVE BACKGROUND ON ASSERTIONS MADE TO US BY RANKING OFFICIALS ON NUMEROUS OCCASIONS THAT GOH IN NEGOTIATING TRADE AGREEMENT WITH U.S. WOULD INSIST THAT NEGOTIATIONS BE BASED UPON OUR MUTUAL GATT RELATIONSHIP. THIS POSITION OBVIOUSLY ONE PERSONALLY FORMULATED BY NYERGES. HOWEVER WE TEND TO QUESTION NYERGES' ASSERTION THAT EVEN IF U.S. AND USSR WERE TO FIND SOME SOLUTION TO PROBLEM OF EMIGRATION AND BILATERAL TRADE AGREEMENT WERE TO BE CONCLUDED, HUNGARY WOULD STILL NOT NEGOTIATE WITH U.S. ON BASIS OF 1974 TRADE REFORM ACT. OUR EXPERIENCE HAS BEEN THAT HUNGARIANS HAVE TENDED TO PUSH ARGUMENT THAT THEY WOULD NEGOTIATE ONLY ON BASIS OF GATT WHEN PROSPECTS FOR MFN HAVE TENDED TO BE REMOTE, NO DOUBT IN AN EFFORT TO STRENGTHEN THEIR BARGAINING POSITION VIS-A-VIS WEST EUROPEANS. BUT DURING PERIOD FOLLOWING TRADE BILL PASSAGE AND ANNOUNCEMENT OF SOVIET REJECTION, HUNGARIANS SHOWED CONSIDERABLE ENTHUSIASM REGARDING POSSI-BILITY THAT TRADE AGREEMENT MIGHT BE REACHED AT EARLY DATE AND WERE VISIBLY AND DEEPLY DISAPPOINTED WHEN SOVIET REJECTION OF TERMS OF TRADE REFORM ACT ELIMINATED POSSIBILITY OF SPEEDY CONCLUSION OF U.S.-HUNGARIAN COMMERCIAL ACCORD. SINCE SOVIET REJECTION OF TERMS OF TRADE ACT WE HAVE AGAIN BEGUN TO HEAR ON A REGULAR BASIS STATEMENT THAT HUNGARY WILL ONLY NEGOTIATE FUTURE TRADE AGREEMENT WITH US ON BASIS OF GATT.
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10. IT IS UNDERSTANDABLE THAT NYERGES, AS HUNGARY'S FORE-MOST EXPERT ON GATT, WOULD BE PARTICULARLY INSISTENT ON PURUSING ANY FUTURE NEGOTIATIONS WITH THE U.S. ON BASIS OF OUR MUTUAL GATT MEMBERSHIP. WE ALSO BELIEVE THAT NYERGES' VIEWS CARRY CONSIDERABLE AMOUNT OF WEIGHT IN FORMULATION OF HUNGARIAN FOREIGN TRADE POLICY VIS-A-VIS DEVELOPED WESTERN COUNTRIES. NEVERTHELESS, WE INCLINED TO DOUBT THAT HIS ARGUMENTS, AS OUTLINED ABOVE, WOULD CARRY DAY IF THERE WERE A REAL POSSIBILITY OF EARLY RESOLUTION MFN ISSUE ON BASIS OF TRADE REFORM ACT.
PEDERSEN

UNQUOTE. INGERSOLL

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